

Banking Committee Testimony - February 19, 2015  
in relation to Rep. Mike Demicco Proposed H.B. No. 5972

Presented by Charles Baumgartner 860-677-6372

ISSUE: Reloadable Debit Card (RCDs) are too high

The non-profit organization to which I am affiliated usually provides dedicated volunteers with an annual nominal "gifts" in the form of a Gift or Debit cards for our key generous volunteer supporters. The large spectrum of cards available to the consumer leaves one's mind reeling with the variety of options available. See Exhibit 3, to envision a typical card kiosk, with Prepaid Debit, Gift, as well as other Branded cards from major stores. Of significant note here is the variety of Terms of Service with respect to each card, in areas such as where and how cards can be used, whether fees apply or not, and amounts of such fees if any, as well as expiration notices of cards. Some of this information is posted on the packaging, while others are not as complete, and the usual practice seems to place the least cost and lowest amount of information for viewing. The choices and terms are pretty unclear, may be overwhelming to the consumer, who than can easily make incorrect choices based upon this unclear packaging/marketing. You can see the variability in terms and rates in debit cards in the graphic provided by the U.S. Consumer Financial Protection Bureau in Exhibit 5.

In my case, upon receipt of my prepaid debit card as a thank-you for my volunteer services, I set my card aside, for use at some later date. When I tried to use the card I immediately noticed the original 100 dollar face value, had been reduced to around \$70 dollars... a 30% reduction in value over a period of just a few months. As I later learned, there was a 6.95 monthly or inactivity fee being siphoned off the card while it sat in my desk nook. From an APR standpoint, this is a rate of nearly 70%. Since the use of actual cash in transaction has decreased on a per transaction basis, to less than 15% of that of Debit and Credit cards combined (Ref. Exhibit 2), the resulting RDC fees are a fast becoming a growing income stream for many financial organizations, as equally offset as they become a drain on consumer's value. If any credit card or bank would charge an APR of 70%, the economy would stall, political and world leaders would be in uproar. Why not here and now?

I always assumed the value of the cards purchased would cost the typical 4-6 dollar load charge fee, plus the actual cash value to be placed on the card, and the value of the card would remain intact until used, since the issuing bank had the cash in hand, and wouldn't mind using my money for overnight loans or other purposes for their profit generation. To an RDC bank's benefit, they seem to profit mostly from the Load/Sales fee the store, other transaction and monthly fees, adding up to as many as 20 fees noted in the terms of use on a particular Debit Card, (Reference Exhibit 1 VanillaDebitCard.com). This is in addition to other profitable fees that are normally charged on normal Credit Cards / Debit Cards which are based upon Visa/MasterCard/Discover Interchange fees (Exhibit 4), which are. paid by

the consumer or the merchant, depending on conditions. It is this latter fee structure in Exhibit 4 combined with RDC fee Structures noted in Exhibit 1 (ranging from \$ .50 up to \$20 per transaction in some cases) that likely provides additional significant of profit when compared to standard Credit and Debit card issuers that we likely use ourselves. The bottom line is that the Fee structures in RDC model lead to large profit potential in a growing market of these types of card. §

It is the Dormancy fees, and the Account Balance Inquiry Fees that are particularly onerous. 1. You cannot tell Merchants to take the card to Zero, if you've used it a few times and forgotten the amount; you must give them the exact balance to drive the card to Zero, and that necessitates a fee transaction, costing the consumer money. 2. The dormancy fee is likewise onerous since cards get tucked away in a nook or cranny for later use, often forgotten and the funds siphoned off without the consumer being aware. Since systems are automated these Balance Inquires are essentially free to access, and there really is no need to have a service charge for funds sitting idle. What service could there possibly be for idle funds anyway?

When I chatted with the Customer Service person 2 years ago, I was told that the fees were reasonable, and necessary. When I told the representative that several of my own banks never charge such fees on my Debit Card, nor for the Credit Card I have, I was told that their market niche was focused on the demographic segment who were not necessary capable of being bank-worthy. To me that implies the lower quintile population of income earners. Perhaps it might include the 60% of Hartford's population that are at or below the Poverty Line, plus those in the ALICE category (Asset Limited Income Constrained and Employed) as so noted in a recent Courant Article. This brings up a few points.

1. Should we not as a nation be concerned about funds being siphoned off with such a high debit card fee rate structure when compared to those fortunate enough to be Bank-worthy citizens? After all the former are those in real need keeping every penny earned.

And...

2. Should we not be in a position to provide better options for those that might not be considered unworthy of having a bank account now, and help promote banking responsibility and community by working with banks to get people into mainstream banking, if only for establishing Credit Scores, a sense of responsibility, and banking credibility?

Historically Connecticut has done a fine job at cleaning up past similar grievances in the Gift Cards and Gift Certificates area in the past, where there once had been expiration dates to many gift cards and certificates. Years ago, the CGA stepped in and did justice to protect the consumers from losing the value provided to people for dinners and gift card awards at stores. However since that time, some banks have found ways to skirt that law, seemingly by removing the word GIFT, and renaming essentially the same card concept both by general use and in implementable cost structure, as a Reloadable Debit Card (RDC), rather than a Gift card, thus the current Gift Card law does not apply to these RDCs, and opens the doors allowing banks to charge unscrupulously high fees, much to the detriment of the user.

I have been advised by the Lawyers and Customer Reps from the Reloadable Debit Cards (RDCs) faction, that these banks, or resellers require these multiple fees to remain

profitable, but it makes little sense since my personal brick and mortar bank provides me with a free credit and AND debit card that costs me nothing, provided I pay off the balance each cycle, or have funds in the checking account tied to the debit card. Granted there may be minimal account balance requirements or Auto-Payroll-Deposit to achieve these free services, but these could likewise be achieved with current RDC practices and processes.

The profit for these RDCs come from a variety of fees, some have as many as 20 different fees, (see Exhibit 1) in addition to the standard Visa/Mastercard merchant/bank Interchange fees that are too numerous to mention. See Exhibit 4. for the INTERCHANGE FEE TABLES that we (or the merchant) usually pays when using normal Credit/Debit cards. These range 1% to nearly 3% of the transaction.

When I use my own personal debit and credit cards, the nominal Interchange Fees (Exhibits 4 & 5) apply and are charged to the merchant from which I purchase service, and the resulting profits go to the issuing bank, and Visa/MasterCard. With respect to Reloadable Debit cards, there is an additional layer of fees and thus profit (Exhibit 1), added that makes these cards particularly costly for those that can least afford the cost.

I suppose the question now would be to determine what the right mix of fees would be to make both RDCs and Consumers winners... that is what I'm asking to be done here.

Thank you for your time.

#### PROPOSALS FOR CONNECTICUT:

1. Establish a fair Fee Structure that maps to the reality of actual cost. Use the current GIFT card fee structure as an example, and expand simply for the reload feature, or other necessary appropriate fees.
2. Work with local banks to provide low-income citizens with the opportunity to become part of the banking community, establish appropriate credit, and integrate into the normal banking system.
3. Eliminate any and all Dormancy Fees for at least 5 years, and once expired, fees might be mandated to return the state of issue, for use in the General Fund.
4. Eliminate the Balance Inquiry Fee, since this essentially is an automated process requiring no human interaction.
5. Work with the US Consumer Financial Protection Bureau to standardize the display of all critical fees, as well as the maximum fee for any specific activity.
6. Last option might be to nudge change by considering a special small Tax on the sale of RDCs, the funds of which might go to produce PSAs to promote better Banking practices for and by consumers and local banks.

## **EXHIBIT 1**

### **FEE SCHEDULES FOR TWO POPULAR BRANDS OF PRE-PAID DEBIT CARDS**

(Permission to share this table directly was not granted, so please visit noted websites to see the Fees Applicable for Pre-Paid Debit Cards for VanillaDebitCard.com and GreenDot.com... other Issuing Banks for Pre-Paid card will differ.)

VanillaDebit.com

<https://www.myvanilladebitcard.com/myvanilla/fees.html>

GreenDot.com purchased at CVS or other Retail outlet

<https://www.greendot.com/greendot/help#fees>

GreenDot.com purchased through a Financial Institution

<https://www.greendot.com/greendot/help#cardfeeplan>

**Exhibit 2:**

**Average Transaction per person by payment type**



Average consumer spend per purchase is consistently higher with debit and credit cards

Source: Visa Payment Panel Study  
(2Q11 to 1Q12 time period)

Conclusion, Cash is not King anymore, and more and more Consumer Protections should be applied to banks and services of Debit as well as Credit Card users.

**Exhibit 3:**

**Display of GIFT v: Prepaid Debit with Branded cards adjacent. (60%/40%)**



**Current law must separate Prepaid Gift Card and Prepaid Reloadable Debit Card separated to avoid consumer confusion.**

**Exhibit 4:**

**VISA's Interchange Fee Structure Schedule 2014 (10 pages)**

**<http://usa.visa.com/download/merchants/Visa-Interchange-Reimbursement-Fees-April-2014.pdf>**

This link provides you with the typical Credit/Debit card transaction fees within the Visa Interchange network... I have to assume these fees are similar to that of MasterCard, however I was not able to find their structure due to limited time.

**Exhibit 5:**

**MasterCard Typical Transaction Flow Merchant to Payer and back:**

**[http://www.mastercard.com/us/merchant/swf/12111\\_ver\\_02.swf](http://www.mastercard.com/us/merchant/swf/12111_ver_02.swf)**

HIT NEXT STEP (upper right corner of page) TO FOLLOW THE MONEY.

This link is provided to show you the normal transaction process of credit/debit cards, to give you the process flow structure that already exists for ALL cards, so as to support my allegation that these Rechargeable Debit Fees are likely to be unjustifiable at the levels noted in Exhibit 1, the VanillaDebitCard.com fee structure, since this huge MasterCard (and likewise Visa Card structure already exists.

I have not been able to find a "Bricks and Mortar" VanillaDebitCard.com bank or GreenDot.com bank that might justify the high fees. Again, due to short research time, this is an incomplete study, but one that might be worthwhile to question validity for actual fee setting. I suspect fee setting is simply based on market forces that some might see based on published Rate Structures at real "Bricks and Mortar" banking institutions.

## Exhibit 5:

### Examples of Existing FEE DISCLOSURE NOTICE on Prepaid Debit cards,

<http://www.consumerfinance.gov/blog/prepaid-cards-help-design-a-new-disclosure/>

201403\_cfpb\_prepaid-cards-attachment-A.jpg (JPEG Image, 14...

[http://files.consumerfinance.gov/f/201403\\_cfpb\\_prepaid-cards-a...](http://files.consumerfinance.gov/f/201403_cfpb_prepaid-cards-a...)

**Example 1 (Top Left):** A card with a list of fees including monthly charge, reloading, and ATM fees.

- Buying the Card:** \$1.50 per month fee plus your first deposit of \$10.00. \$1.50 Cash Back.
- Using the Card:** \$5.55 Monthly Charge. If you use the card at a Monthly Charge, you'll get a \$5.55 cash back at the end of each month. \$1.50 per month fee plus your first deposit of \$10.00. \$1.50 Cash Back.
- Reloading the Card:** \$4.00 per month fee plus your first deposit of \$10.00. \$1.50 Cash Back.
- Using ATMs & Getting Cash:** \$4.00 per month fee plus your first deposit of \$10.00. \$1.50 Cash Back.
- Other Fees:** \$4.00 per month fee plus your first deposit of \$10.00. \$1.50 Cash Back.

**Example 2 (Top Right):** A card with a table of fees for different card types and a 'Balance Inquiry Fee' section.

| Card Type       | Monthly Fee | ATM Fee | Balance Inquiry Fee | Annual Maintenance Fee |
|-----------------|-------------|---------|---------------------|------------------------|
| Pay At You Card | \$5.00      | \$2.50  | \$2.50              | \$5.00                 |
| Fee-Free Card   | \$5.00      | \$2.50  | \$2.50              | \$5.00                 |
| Fee-Free Card   | \$5.00      | \$2.50  | \$2.50              | \$5.00                 |

**Balance Inquiry Fee:** \$2.50 per month. \$2.50 per month. \$2.50 per month. \$2.50 per month.

**Example 3 (Bottom Left):** A card with a 'CHOOSE THE FEE PLAN THAT'S RIGHT FOR YOU!' section and a table of fees.

| Plan           | Monthly Charge | Transaction Fee | After 12 Months or No Activity |
|----------------|----------------|-----------------|--------------------------------|
| PER USE PLAN   | None           | \$1.00          | \$1.00                         |
| PER MONTH PLAN | \$5.55         | None            | None                           |

**Example 4 (Bottom Right):** A card with a 'LOW MONTHLY FEE' section and a table of fees.

| Category                                 | Fee                  |
|--|----------------------|
| LOW MONTHLY FEE                          | \$1.00 (MONTHLY FEE) |
| MINIMUM BALANCE                          | \$10.00              |
| OVERDRAFT FEE                            | \$10.00              |
| DIRECT DEPOSIT                           | \$10.00              |
| CHECKING/SAVINGS ACCOUNT                 | \$10.00              |
| CASH RELOAD PACK                         | \$10.00              |
| WITHDRAWAL/DEPOSIT AT ATM                | \$10.00              |
| WITHDRAWAL/DEPOSIT AT OTHER ATM          | \$20.00 (MONTHLY)    |
| PAY BILLS                                | \$10.00              |
| SEND AND RECEIVE MONEY ONLINE AND BY APP | \$10.00              |
| FOREIGN TRANSACTIONS                     | \$2.50 (MONTHLY)     |

Note the variety of Disclosure formats making it nearly impossible to properly comparison shop cards. Plus note, NOT ALL FEES ARE NOTED, when compared to the sample of VanillaDebitCard.Com Fee structure from Exhibit 1,

## Exhibit 6a:



**PROPOSED “Standards for Debit Card Labeling” for FEE DISCLOSURE NOTICE  
on Prepaid Debit cards. Sample 1 and Sample 2 noted.**

|                |                |              |                |
|----------------|----------------|--------------|----------------|
| Monthly fee    | Cash reload    | Per purchase | ATM withdrawal |
| <b>\$4.95*</b> | <b>\$2.00*</b> | <b>\$0</b>   | <b>\$2.50*</b> |

\*Fee can be less depending on usage.

|   |                  |
|---|------------------|
| ATM balance inquiry                       | \$2.50*          |
| Live agent phone service                  | \$1.50 per call  |
| Inactivity (no transactions for 3 months) | \$4.50 per month |
| Online bill pay service                   | \$1.00           |
| Replacement card                          | \$4.95           |
| Decline (ATM or purchase)                 | \$1.00           |

**We charge other fees not listed here.** See the enclosed account agreement or visit [www.xyzprepaid.com/fees](http://www.xyzprepaid.com/fees) for details.

Until you register this card, your money is not protected.

For more information about prepaid cards,  
visit [consumerfinance.gov/prepays](http://consumerfinance.gov/prepays).

**Recommendation for Connecticut: In place of the “WE CHARGE OTHER FEES NOT LISTED HERE... replace text with “WE CHARGE OTHER FEES NOT LISTED HERE, THE MAXIMUM CHARGE IS \$DD.CC**

**Exhibit 6b:**

**PROPOSED “Standards for Debit Card Labeling” for FEE DISCLOSURE NOTICE on Prepaid Debit cards. Sample 2 noted.**

|                                     |   |                  |
|-------------------------------------|---|------------------|
| <b>Maintenance</b>                  | Monthly fee                               | \$4.95           |
|                                     |   |                  |
| <b>Add and with-<br/>draw money</b> | Cash reload                               | \$2.00*          |
|                                     | ATM withdrawal                            | \$2.50*          |
| <b>Spend<br/>money</b>              | Per purchase                              | \$0              |
|                                     | Online bill pay service                   | \$1.00           |
| <b>Get account<br/>information</b>  | ATM balance inquiry                       | \$2.50*          |
|                                     | Live agent phone service                  | \$1.50 per call  |
| <b>Other fees</b>                   | Inactivity (no transactions for 3 months) | \$4.50 per month |
|                                     | Replacement card                          | \$4.95           |

\*Fee can be less depending on usage.

**We charge other fees not listed here.** See the enclosed account agreement or visit [www.xyzprepaid.com/fees](http://www.xyzprepaid.com/fees) for details.

Until you register this card, your money is not protected.

For more information about prepaid cards, visit [consumerfinance.gov/prepays](http://consumerfinance.gov/prepays).

**Recommendation for Connecticut: In place of the “WE CHARGE OTHER FEES NOT LISTED HERE... replace text with “WE CHARGE OTHER FEES NOT LISTE HERE, THE MAXIMUM CHARGE IS \$ DD.CC**